A CRITICAL STUDY OF INCOME TAX PLANNING AND MANAGEMENT OF EMPLOYEES OF SWAMI RAMANAND TEERTH MARATHWADA UNIVERSITY NANDED

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By

Dr. Mudholkar Gajanan Panditrao
M.Com., M.B.A. (Finance), M.B.A (H.R.), M.B.A. (Marketing),
P.G.D.I.B.O., P.G.D.B.& F., G.D.C.& A., SET (Commerce), NET (Commerce),
SET(Management), NET(Management), UGC-JRF,
Ph.D. (Management)

Under the Guidance of

Prof. Jayant V. Joshi,
M.Com., M.Phil, Ph.D.,

School of Commerce and Management Sciences,
Swami Ramanand Teerth Marathwada University, Nanded

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Title of the Research work: **A Critical Study of Income Tax Planning and Management Of Employees of Swami Ramanand Teerth Marathwada University Nanded**

1.1 Introduction to the topic

In India, Most people are ignorant of personal savings and investments. They want to save money or they do not want to take financial risk, as they desire to achieve financial freedom. They do not have financial management skills to enhance their saving through the tax planning and management. The investment behavior of salaried class persons is restricted to certain financial literacy boundaries.

The employees are uniformed about different financial alternatives that may lead to tax saving and investments accessible in the Indian financial market. Generally, the salaried class wants to invest at the end of financial year so as to minimize their tax amount and they lack updated and new information of financial planning and investments. That crafts the tax filing procedure as a trepidation nucleus.

Salaried people often falsely believe that they do not need any financial planning as their income and expenses are regular. They presume that their savings automatically accumulate in the bank and do not require any intrusion to maximize financial gains. But we believe that with some serious efforts and knowledge, salaried people can save huge amount of money and increase their annual income by investing their hard earned money in tax-efficient schemes.

There is false conviction in the mindsets of salaried people that they do not require any kind of investment planning as their earning and expenditure are fixed. The salaried people assume that if they deposit their savings in the bank, the income may be increased so they think that they do not need any intrusion to capitalize on financial gains

Tax planning is the fundamental ingredient of individual financial planning. The information about investment options leading to tax saving is incomplete, widely spread and scattered in the market. It makes difficult for investor to understand, compare and invest in different investment alternatives leading to tax saving in the market. Therefore the tax planning becomes the topic of study as it will provide direction for investment and shall study the investment behavior, pattern and attitude of salaried employees. The employees feel that there will be no competitive advantage of using tax saving investment options.

.Due to cut throat competition in the financial market, the financial instruments such as home loans, tax saving policies are sold by different financial companies. These financial companies include banks and non banking financial companies. Hence employees are tackled by the representatives promoting home loans and tax saving products. These representatives narrate interest rates, easy EMI, annual gains, which employees are incapable to realize and authenticate.

1.2 An Introduction to Taxation

Income Tax is an annual tax on earnings or simply income. According to the Section 4 of the Indian Income Tax act that income tax will be levied for the consequent assessment year calculated from the total income of preceding year of each assesses at the rates set down by the Finance act for the appraisal year called assessment year. The section 14 of the Indian Income Tax act provides that the calculation of total earnings called total income, all income or earnings shall be categorized into the different heads of income as

1. Salaries
2. Income from house property.
3. Profits and gains of Business or profession
4. Capital gains
5. Income from other sources.

These all heads of income as total income shall be calculated from and on the first day of April of any assessment year in harmony with the requirements of the act.

1.3 WHAT IS "SALARY"

Salary is the compensation, remuneration or payment received by or accruing to an individual, from time to time for the service delivered as an outcome of an express or implied contract. The real receipt of salary in the preceding year is not material as far as its taxability is concerned. The subsistence of employer-employee association is the *sine-qua-non* for taxing a particular receipt under the head "salaries".

For illustration, the earnings received by a partner doing a partnership business is not chargeable as "Salaries" but these earnings shall be charged as "Profits & Gains from Business or Profession" likewise, if a person received salary as Minister of State/ Central Government, the same shall be charged to tax under the head "Salaries". Pension received by an assesses from his former employer is taxable as "Salaries" whereas pension received on his death by members of his family (Family Pension) is taxed as "Income from other sources".

1.4 WHAT DOES "SALARY" INCLUDE

The Section 17(1) of the Income tax Act defines "Salaries" as including therein

Sr. No.	**Head**
1	Wages
2	Annuity or pension
3	Gratuity

4	Fees, Commission, perquisites or profits in lieu of salary
5	Advance of Salary
6	Amount transferred from unrecognized provident fund to recognized provident fund
7	Contribution of employer to a Recognised Provident Fund in excess of the prescribed limit
8	Leave Encashment
9	Compensation as a result of variation in Service contract etc.
10	Contribution made by the Central Government to the account of an employee under a notified pension scheme.

1.5 DEDUCTION FROM SALARY INCOME

The Section 16 of the Income-tax Act provides following deductions from salary income

(i) Professional /Employment tax charged by the State Government.

(ii) Entertainment Allowance- Deduction in respect of this is available to a government employee to the extent of Rs. 5000/- or 20% of his salary or actual amount received, whichever is less. It is to be noted that no standard deduction is available from salary income w.e.f. 01.04.2006 i.e. A.Y. 2006-07 onwards.

1.6 PERQUISITES

"Perquisite" may be defined as any informal emolument or benefit attached to an office or position in addition to salary or wages. According to Section 17 (2) of the Income Tax Act as Perquisites including:

Sr. No.	**Head**
1	Value of rent-free/ concessional rent accommodation provided by the employer.
2	Any sum paid by the employer in respect of an obligation which was actually payable by the assessee.
3	Value of any benefit/ amenity granted free or at concessional rates to specified

	employees.
4	The Value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer, or former employer, free of cost or at concessional rate to the assessee.
5	The amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds one lakh rupees.
6	The value of any other fringe benefit or amenity as may be prescribed.

1.7 Tax Planning

Tax planning may be defined as an arrangement of one's financial affairs in such a way that without violating in any way the legal provisions, full advantage is taken of all exemptions, deductions, concessions, rebates, allowances and other reliefs or benefits permitted under the Act so that the burden of taxation , as far as possible, is the least.

Tax planning may, therefore, be regarded as a technique of vivid use of professional comprehension while planning one's concern with a vision to protect the succinctly provided tax settlement on the basis of countrywide concerns in maintenance with the governmental and legal opinion. It is neither tax evasion nor tax avoidance. It is the systematic arrangement of one's pecuniary dealings in such a way as to attract least burden to tax or postponement of the tax liability for the succeeding period by availing of various incentives, special considerations, payments, refunds and liberations provided for in the framework of present tax act.

The socio-economic goals and saving and investment encouragement are accomplished by the exemptions, deductions, refunds and liberations or reliefs. This is done to develop the economy of the nation. The tax planning is an act under the four areas of the act and its not the machinery to evade the tax. The assesse may take the benefit of the deductions and rebates in order to reduce his tax liability, this is ethical, legal and social to achieve the objectives of Income Tax act.

The complete and up-to-date knowledge of tax act and practice of tax planning and management is essential for tax planning and tax planner should be competent and aware to comprehend and utilize various decisions of the Courts related to Income Tax Act.

The case laws are considered as one of the most excellent techniques to study tax planning. The Productive and unproductive tax planning can be revealed through the judgments of the Supreme courts and various High Courts. The tax provisions and its application to diverse circumstances could be touched by the judgments. The interpretation of income tax is very essential as far as tax planning and management is concerned. The Central Board of Direct Taxes (CBDT) issues different circulars. These circulars are useful while planning and managing the income tax policies. The tax payers have to develop vibrant technique of tax planning and management within the framework of act but shall provide tax saving benefits to the tax payers or assesses.

1.8 Statement of the Problem

The salaried employees constitute a sizable class of taxpayers who contribute to the public exchequer about major part of the total revenue collection by way of income tax. Their income is assessed under the head "Salaries". The head salary includes the major portion of revenue collection by the government. As the salary income is deducted at source, HENCE THERE ARE NO CHANCES FOR TAX AVOIDANCE AND TAX EROSION. These EMPLOYEE class constitute to the major part of the tax payers.

The tax planning and management is incredibly imperative for the tax payers called employees as Inflation, price hikes and their compulsion to tax fulfillment. So its very essential to understand their tax obligations in right way and different investment policies available for tax saving purpose. The up to knowledge about different tax saving schemes has become indispensable for tax payers. It is observed that the salaried class tax payers do not pay proper attention to the tax saving schemes as they consider that they cannot avoid the taxation part. Hence the tax planning measures are not satisfactorily adopted by the salaried class tax payers.

Tax planning is feasible right through appropriate savings and wise investments decisions. Tax payers normally turn away of their tax liability only towards the end of the financial year. This leaves them with little option to invest or save with the available income. The real issues would relate to having awareness on the numerous provisions that would help in reducing the tax liability. The key issue is awareness about the income tax provisions as well as awareness about investment opportunities.

Investments come in the form of physical assets and financial assets with varying yields. The complete understanding on the opportunities available and managing one's finance considering tax liability and post tax cost are crucial as far as personal finance is concerned, Planning for the future so as to enhance returns and minimize tax commitments would form part of financial decision making. These issues are more complex when it comes to the salaried class with a stabilized income inflows.

The current study is an endeavor to study the tax planning and management dealings adopted by the salaried income tax assesses of the S.R.T.M. University in the light of tax administrative measures being implemented by the Government.

1.9 OBJECTIVES OF STUDY

The study shall be conducted with following objectives:

1. To study and compare tax planning and management measures adopted by the (teaching and non teaching staff) employees of S.R.T.M. University, Nanded.
2. To study the patterns of savings used by the (teaching and non teaching staff) employees of S.R.T.M. University, Nanded.
3. To contrast the tax saving investment plans of (teaching and non-teaching staff) employees of S.R.T.M. University, Nanded.
4. To contrast to repayment of tax liabilities that lead to tax planning of (teaching and non-teaching staff) employees of S.R.T.M. University, Nanded.
5. To compare the tax saving investment behavior and attitude of teaching and non-teaching staff of S.R.T.M. University, Nanded.
6. .To assess differences in the tax planning measures adopted by different segments of employees of S.R.T.M. University, Nanded based on level of income and type of organization.
7. To ascertain the level of awareness of the employees of S.R.T.M. University, Nanded on various tax planning measures available under the income tax Act.
8. To analyze the impact of tax planning on saving habits and investment pattern of the assesses belonging to the employees of S.R.T.M. University, Nanded.

1.10 Hypotheses of the study

Based on the problems identified and the objectives set, the following hypotheses are formulated.

1. There is no noteworthy discrepancy in the tax planning and management measures adopted by the (teaching and non teaching staff) employees of S.R.T.M. University, Nanded.
2. The patterns of savings used by the (teaching and non teaching staff) employees of S.R.T.M. University, Nanded are analogous in tax payers' nature.
3. The tax saving investment plans of (teaching and non-teaching staff) employees of S.R.T.M. University, Nanded are similar in its characteristics.
4. The prototype of repayment of tax liabilities that lead to tax planning of (teaching and non-teaching staff) employees of S.R.T.M. University, Nanded are not different.
5. There is no significant difference in the tax saving investment behavior and attitude of teaching and non-teaching staff of S.R.T.M. University, Nanded.
6. There are no major differences in the tax planning measures adopted by different segments of employees of S.R.T.M. University, Nanded based on level of income and type of organization.
7. The employees of S.R.T.M. University of (teaching and non-teaching staff) are uniformly aware about various tax planning measures available under the income tax Act.
8. The impact of tax planning on saving habits and investment pattern of the assesses belonging to the employees of S.R.T.M. University, Nanded are same in teaching and non-teaching staff of University.

All the above hypotheses are formulated and the same will be tested for employees of S.R.T.M. University, Nanded. The income wise classifications of employees are based on the tax rates schedule applicable to individual income tax asseesees for the AY 2015-16. Ad per the Finance Act 2016, minimum tax rate of 10 percent was applicable to income slab upto 3 lack, income slab of 3 lacks to 5 lakhs attracted the tax rate of 20 percent and income above 5 lakh is taxed at 30 percent.

Hence, the identified income groups are

1. Low income group: Employees having annual salary income of below 2.5 lakh.

2. Lower middle income group: Employees having annual salary income ranging between 2.5 lakhs to 5 lakhs.
3. Upper middle income group: Employees having annual salary income ranging between 5 lakhs to 10 lakhs.
4. High income group: Employees having annual salary income of above Rs. 10 lakhs.

1.11 Scope of the Study

Taxation is considered as a complex matter affecting financial planning of each individual income tax assesses. The scope of the present study is limited to tax planning measures adopted by the salaried income tax assesses of the state. The study also evaluates the extent of awareness of employees on the laws and tax planning measures. The saving habits, investment pattern, repayment of liabilities, tax planning measures adopted for the period under study and the level of awareness of employees on tax laws and tax planning measures will be studied and evaluated.

1.12 Review of Literature

There is research work carried out in the field of income tax planning and management as follows

Sr.No.	Researcher	Year	Research Output
1	**Ria Sinha**	2010	The tax system around the globe has undergone major restructuring in the last twenty years due to the varying philosophy and levels of growth. In the study, 'An International Comparison of Tax Regimes'. She tries to evaluate the existing tax structure in India in contrast to some of the developed as well as developing countries.
2	Ankita Gupta	**2009**	Researcher deliberated the patterns and awareness of Indian individual income tax subsequent to the tax restructuring commenced in the liberalizde era. The study analyzed the major trends in the taxation of individual income in India during the interlude 1980-2008.The study concluded that simplification of tax rate and broadening of the tax base are the important

			reforms that could be undertaken for reforming the tax structure and increasing its responsiveness.
3	Anil Kumar Jain and Parul Jain	**2007**	Researcher revealed that a very serious lacunae in the tax incentive provision in India has been that they have been introduced in an ad hoc manner and have been subject to frequent changes. Such ad hoc changes have created uncertainty in the minds of savers and investors.
4	Chitta Ranjan Sarkar	**2004**	Researcher identified that the basic purpose of tax incentives in India was to motivate the tax payers to save and invest more, particularly, in rural and backward areas of the country. The study described and critically evaluated the policy of liberal income tax exemptions and concessions to accelerate the pace of economic growth in India. It examined various theoretical issues related to the operations of tax incentives.

1.13 Research Methodology

1.13.1 Determination of sample Size[21]

The sample size is determined with the help of either sample size formulae or table explaining the sample size. Depending on various conditions, different formulae are used to calculate the appropriate sample size according to the various permutation of accuracy, confidence, and variability. Here the large proportionate sample size formula is used to calculate the sample size.

Formula For Calculating A Sample For Proportions. For populations that are large,

Cochran (1963:75) developed the Equation 1 to yield a representative sample for

$$N_{0=} \frac{Z^2pq}{e^2}$$

where, N_0 = Sample size

Z^2 = abscissa of the normal curve that cuts off an area α at the tails

(1 – α equals the desired confidence level, e.g., 95%).

P = probable proportion of an attribute that is present in the population

q= 1-p. and e= desired level of precision

Under the normal curve distribution, with the probability p assuming assume p=.5 (maximum variability) we desire a 95% confidence level and ±5% precision. Then the sample size is determined as follows

$$N_0 = \frac{Z^2 pq}{e^2}$$

$$= (1.96)^2 (.5)(.5)/(.05)^2$$

= 385 Respondents

Table No. 5.01 Sample Size Determination

Table 1. Sample Size for ±3%, ±5%, ±7%, and ±10% Precision Levels where Confidence Level Is 95% and P=.5.

Size of Population	Sample Size (n) for Precision (e) of:			
	±3%	±5%	±7%	±10%
500	a	222	145	83
600	a	240	152	86
700	a	255	158	88
800	a	267	163	89
900	a	277	166	90
1,000	a	286	169	91
2,000	714	333	185	95
3,000	811	353	191	97
4,000	870	364	194	98
5,000	909	370	196	98
6,000	938	375	197	98
7,000	959	378	198	99
8,000	976	381	199	99
9,000	989	383	200	99
10,000	1,000	385	200	99
15,000	1,034	390	201	99
20,000	1,053	392	204	100
25,000	1,064	394	204	100
50,000	1,087	397	204	100
100,000	1,099	398	204	100
>100,000	1,111	400	204	100
a = Assumption of normal population is poor (Yamane, 1967). The entire population should be sampled.				

Source:- Yamane, 1967

1.13.2 Research Framework or Summary of Research Design

Sr.No.	Parameter	Description
1	**Type of Research**	Ex Post Facto Descriptive Research
2	**Nature of Research**	Quantitative
3	**Research Instrument**	Structured questionnaire, observation and interview
4	**Dependent Variable**	Tax planning and management measures for employees of S.R.T.M. University, Nanded
5	**Independent Variables**	Different financial planning instruments to save income tax.
6	**Control over Variables**	No Control- Ex post facto
7	**Survey Period**	Financial Year 2015-16 to 2016-17
8	**Type of Products**	Financial Products
9	**Methods of Data Collection**	Sample Survey Method through Interrogation
10	**Universe**	Employees of Universities in Maharashtra State- State Universities
11	**Population**	Employees of Select Non Agricultural Universities in Maharashtra State- State Universities
12	**Sampling Frame**	University Employees
13	**Sample Elements**	University Employees: a) Teaching Staff: Professor, Associate Professor And Assistant Professor b) Non Teaching Staff: Class I and Class II officers S.R.T.M. University, Nanded
14	**Sample Size Determination**	Using Mean and Proportionate Sampling Formula
15	**Calculated Sample Size**	386 Teaching and Non Teaching Staff
16	**Net Responses**	It will be gauged after collecting data
17	**Response Rate**	It will be gauged after collecting data
18	**Rejection Rate**	It will be gauged after collecting data
19	**Sampling Method**	Census Method
20	**Sources of Data Collection**	Primary and Secondary sources
21	**Primary Sources**	Structured questionnaire, observation, interview and field survey
22	**Secondary sources**	Journals, Articles, Magazines, Digital library, e resource database ebsco, pro-quest, open j gate, emerald, science-direct, Harvard Business Review case study, articles and and many other published data
23	**Measurement Scales used**	Nominal, ordinal and interval scale

24	**Questions Types**	Dichotomous, open ended, multiple responses, ranking and differential scales
25	**Rating Scales Used**	Likert Scale
26	**Data Interpretation**	Through graphs, descriptive statistics and inferential statistics
27	**Statistical Tools**	Z test, chi square, ANOVA, factor analysis and multiple regression and descriptive statistical tools and parametric and non parametric statistical tests
28	**Statistical Software Package**	Ms Excel 2010 and SPSS 20

1.9 Organization of the thesis

The study is presented in six chapters:

Chapter One: Introduction to the topic

It deals with Introduction to the topic, statement of the problem, scope of the study, objectives of the study, hypotheses formulated, methodology adopted, limitations of the study and chapter scheme.

Chapter Two: Review of Literature

It presents the available literature based on previous studies related to personal income tax planning, personal income tax reforms and direct tax administration.

Chapter Three: Tax Planning and Management- An Outline

It explains the concepts of tax planning and discusses the deductions and exemptions available for the salaried employees of S.R.T.M. University, Nanded under the provision of Income Tax Act.

Chapter Four: Direct Tax Reforms and Practices in India

In the fourth chapter entitled Reforms in Direct Taxes- with special reference to Personal Income Tax, studies the reforms introduced in the direct tax system during the past two decades and try to assess the impact of those reforms on the tax liability of the salaried income tax assesses (Employees of S.R.T.M. University, Nanded) during the period under study. It is concerned with a study on the administration and enforcement of direct tax system in the country for the past ten years.

Chapter Five : Tax Planning and Management Awareness and Measures

Chapter Five makes an analysis of the awareness level of employees on tax planning measures and the provisions of tax laws affecting the salaried class. The tax

planning measures adopted for the period under study by salaried employees of S.R.T.M. University, Nanded during the period under the various income groups will be compared and analyzed in this chapter.

Chapter Six: Findings, Conclusions and Suggestions

The concluding chapter gives the summary of findings and recommendations based on the study and the scope for further research.

Research Scholar,

Dr. Gajanan P. Mudholkar
Assistant Professor
School of Commerce and Management Sciences, S.R.T.M. University, Nanded

Research Supervisor/ Guide

Prof. Dr. Jayant V. Joshi,
Professor,
School of Commerce and Management Sciences, S.R.T.M. University, Nanded.